

# REGULAR BOARD OF TRUSTEES MEETING MINUTES

Tuesday, June 5, 2007

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Don Bennett called the meeting to order at 10:14 a.m. Other Board members present included Kevin Boehnlein, Cari Whicker, Karen Davis, Cyndi Walsh, and Ryan Kitchell.

TRF staff present included Cristy Wheeler, Bob Newland, Tom Abbett, Crystal Lawson, Phil Barnes, Tom Davidson, Steffanie Rhinesmith, Becky Carter, Bethaney Matlock Wolf, Matt Myers, Joy Smith, Amy Maynard, Keith Hall and Dan Diebolt. Others present were Chuck Schalliol.

The agenda was presented. Kevin Boehnlein moved to approve the agenda. Cari Whicker seconded the motion. The motion carried.

The minutes of the March 27, 2007 meeting were presented. Kevin Boehnlein moved to approve the minutes. Cari Whicker seconded the motion. The motion carried.

Don Bennett and Cristy Wheeler applauded Chuck Schalliol for his hard work and years of service as Budget Director, Director of OMB, and trustee of TRF.

Dan Diebolt presented a monthly summary of payments for May 1 and June 1, 2007. Karen Davis moved to approve the monthly summary of payments and Cari Whicker seconded the motion. The motion carried.

Tom Abbett presented the expenditures and actual expenses for March and April 2007.

Tom Davidson presented the legislative overview hand-out to the Board detailing six new bills that affect TRF: HEA 1001, HEA 1060, HEA 1067, SEA 0029, SEA 0088, and SEA 501. Regarding HEA 1067, Tom discussed a RFP that will be going out soon to determine whether or not TRF is invested in companies that must be divested pursuant to this legislation. In response to questions, Tom discussed in depth that there is no federal law stating that TRF should divest; however, state law now requires it and he added that the law grants the Board immunity and no money was provided to TRF to pay for implementation of the law. Cristy Wheeler added that TRF is working with PERF on this issue to hopefully reduce its cost, and we must be divested by March 31, 2008.

Cristy Wheeler introduced the First Budget Overview by discussing the history of the budget for 2006 & 2007. Tom Abbett passed out packets to the Board that projected actual spending for fiscal year 2008. Cristy Wheeler discussed data processing changes, slight increases in salaries, and ways of making communication more cost effective. Cristy added the budget for fiscal year 2008 will be approved at the next Board meeting.

Bob Newland introduced the private equity search results by reviewing the history of the search to update Ryan Kitchell and Cyndi Walsh. Bob discussed in detail the investments hand-out which compared/contrasted Portfolio Advisors and Hamilton Lane Advisors. Bob's memo hand-out answered all of the Board's questions from the previous meeting. Don Bennett requested that Bob Newland make a recommendation, and Bob recommended we go with Portfolio Advisors because of the excellent results we have achieved, and it will be cheaper by 4.3 million dollars over the next 15 years compared to Hamilton Lane Advisors. After an open forum of questions from the Board, Kevin Boehnlein requested we allow additional time for Ryan Kitchell and Cyndi Walsh to catch up so the Board can benefit from their feedback. Don Bennett deferred the decision until the next Board meeting and requested that Bob Newland find the comparison of return on a same time basis between Portfolio Advisors and Hamilton Lane Advisors. Cristy Wheeler added that they will try to have Hamilton Lane Advisors and Portfolio Advisors make presentations to the Board at the next meeting, and Callan Associates will also be present in order to help the decision making process.

Steffanie Rhinesmith presented the small cap manager search recommendation hand-out to the Board which discussed the basis behind the small cap search, the procedures taken in the search, and seven small cap managers that TRF recommended. Kevin Boehnlein moved to approve the hiring of the seven managers recommended. Cari Whicker seconded the motion. The motion carried.

Bob Newland reviewed the first quarter results by distributing investment hand-outs from Callan Associates. Bob noted that we beat our target for the last quarter and last 3 years, but lagged our target for the last one year and five years, and Bob said he would like to have recommendations to hire real estate managers at the next Board meeting. Don Bennett asked Bob Newland to provide comparison information of the number of managers terminated for under performance versus the number of similar terminations at other funds. Don Bennett asked Bob for a short summary of our results and Bob said our results were mixed because the decision process for hiring money managers has changed over the years. He feels comfortable about the direction TRF is going in now.

Cristy Wheeler began the Director's Report by introducing Joy Smith as the Fund's new Human Resources Director. Next, Cristy added that TRF did an RFP for an actuary and we will have a recommendation in the upcoming months, and then handed out a report of TRF's results against goals in the first quarter for the Board members to review.

Cristy Wheeler continued the monthly highlights by recognizing a comment from the June 2006 actuarial valuation:

"The financial condition of the ISTRF remains very weak with one of the lowest funded ratios in the nation. We continue to recommend a change in the funding policy to provide for contributions on behalf of all members (not just the 1996 Fund members) on an actuarially basis. The current pay-as-you go method for Pre-1996 Fund members could result in the inability to pay pensions as the growing pension payroll puts additional cash demands on State finances."

In response Cristy Wheeler noted that the Board and the TRF staff do not have the capability to change the funding; rather the legislature controls the funding. We do keep them apprised of our funding requirements and PMOC will be looking at our benefits structure this summer. Don Bennett commented that the Board is not the legislature and we cannot change the pay-as-you go system.

The June meeting was set for June 26, 2007 at 10:00a.m. Kevin Boehnlein mentioned he will be unable to attend the tentative July Board meeting scheduled for July 31, 2007.

There being no additional business, Don Bennett moved to adjourn the meeting and Cari Whicker seconded the motion. The meeting adjourned at 12:23p.m.